

# The Shape of the Office in the Future

Considering the best mix between consolidation and dispersion

February 6, 2019

## 1. Introduction: Workstyle Reforms and the Office in Japan

Workstyle reforms have been positioned as an important national strategy in Japan, with companies also accelerating their efforts from the perspective of securing personnel and improving productivity.

The following five elements are important for companies when carrying out workstyle reforms: the commitment of management, the personnel system, investment and use of ICT, enlightenment and education of workers, and the office environment. For example, a limited range of initiatives, such as changing the system or ICT tool alone, would be insufficient; it is necessary to consider all five elements in a cross-sectional manner. In particular, designing an office environment or a workplace that supports workers' new ways of working will be extremely important in generating synergy between other initiatives.

One such scheme that is attracting attention is telework. According to a company survey carried out by Xymax Real Estate Institute ("Xymax REI") in October 2018,\* 66.7% of companies had made some kind of ICT investment (**Figure 1**), while 26.6% had provided a place or program for telework (**Figure 2**).

\*Metropolitan Areas Office Demand Survey Autumn 2018, released on December 18, 2018

[https://www.xymax.co.jp/english/news\\_research/?type=research](https://www.xymax.co.jp/english/news_research/?type=research)

Figure 1: ICT Investment to Support Telework

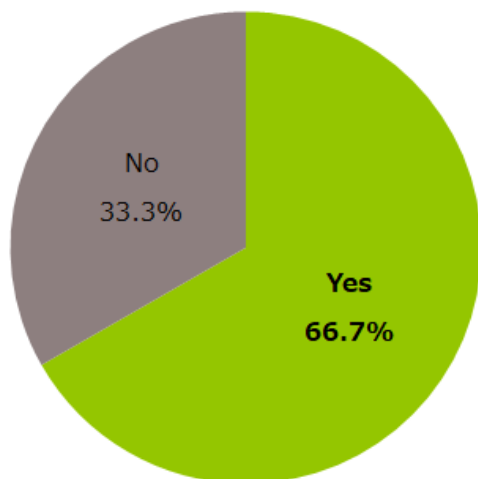
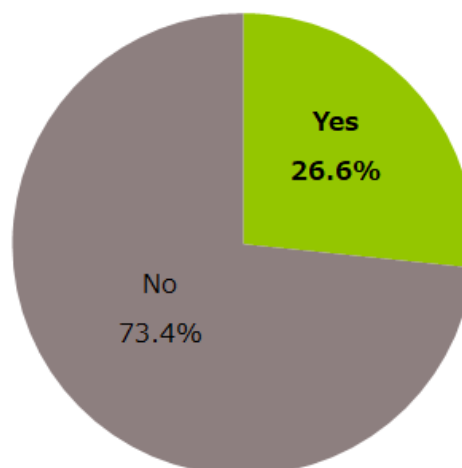


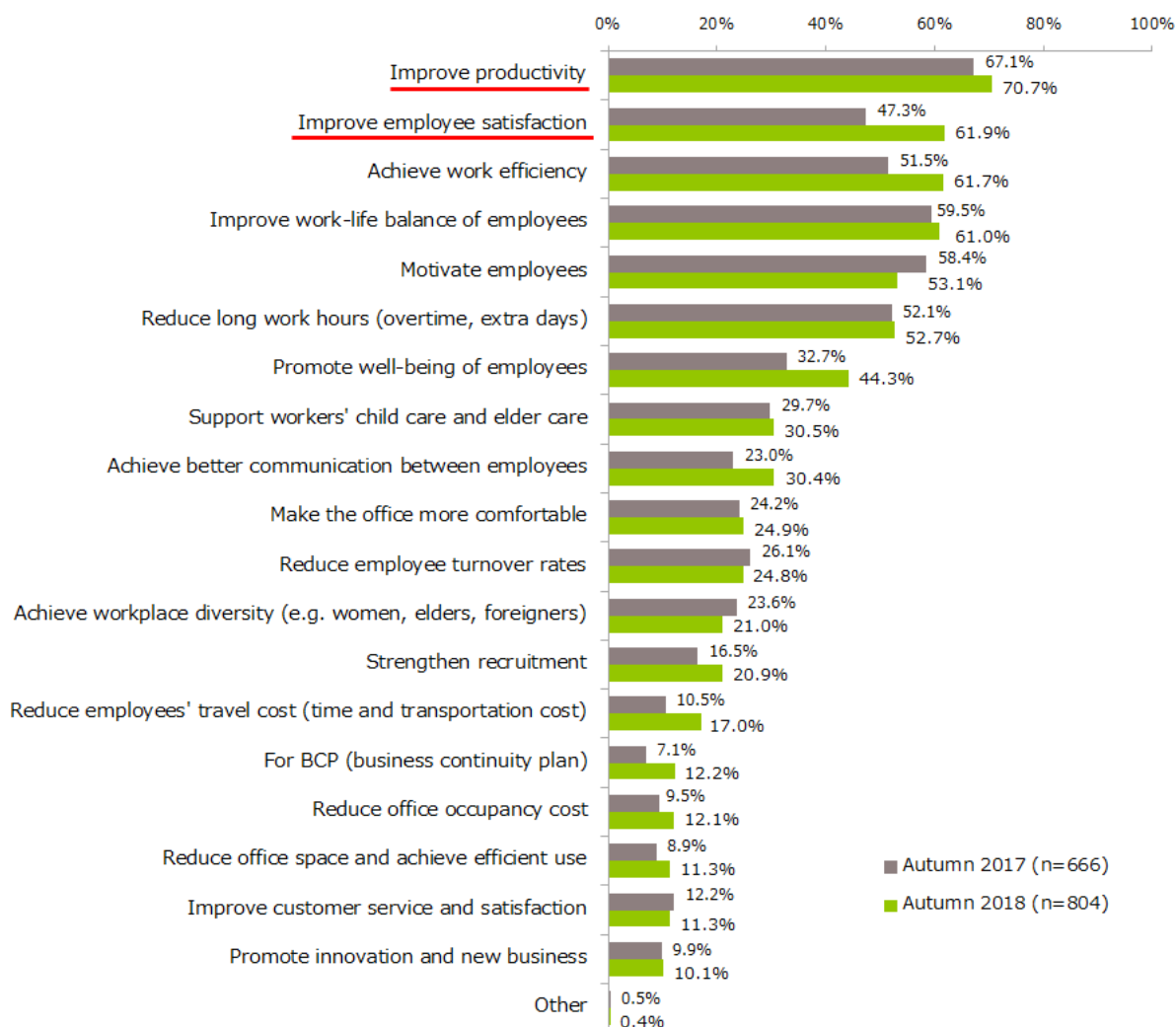
Figure 2: Providing Places and Programs for Telework



(Figures 1 & 2: n=1,352)

The report also revealed that many companies mentioned the improvement of productivity (70.7%) and the improvement of employee satisfaction (61.9%) as the purpose for implementing workstyle reforms, with the percentage of companies placing emphasis on employee satisfaction, in particular, increasing by 14.6 points from the survey in 2017 (Figure 3). We believe such changes in companies' awareness as well as the use of telework and other workstyle changes will have an effect on the shape of the workplace.

**Figure 3: Purpose of Workstyle Reforms**



This trend of companies focusing on workers' working environment can also be seen in other countries, including European countries and the United States. However, in Japan, where the shrinking and aging of the population is more advanced and the shortage of labor is intensifying, new groups of human resources, namely the elderly, women, and persons with disabilities, are required to become active as office workers. An environment where a diverse range of workers can work comfortably and be productive must be considered, while taking into consideration such issues as the uneven distribution of offices in metropolitan centers and long commutes in packed trains.

This report is a topical report that aims to estimate how the workplace of office workers will change, based on the current situation and survey results, and to indicate the direction of the change.

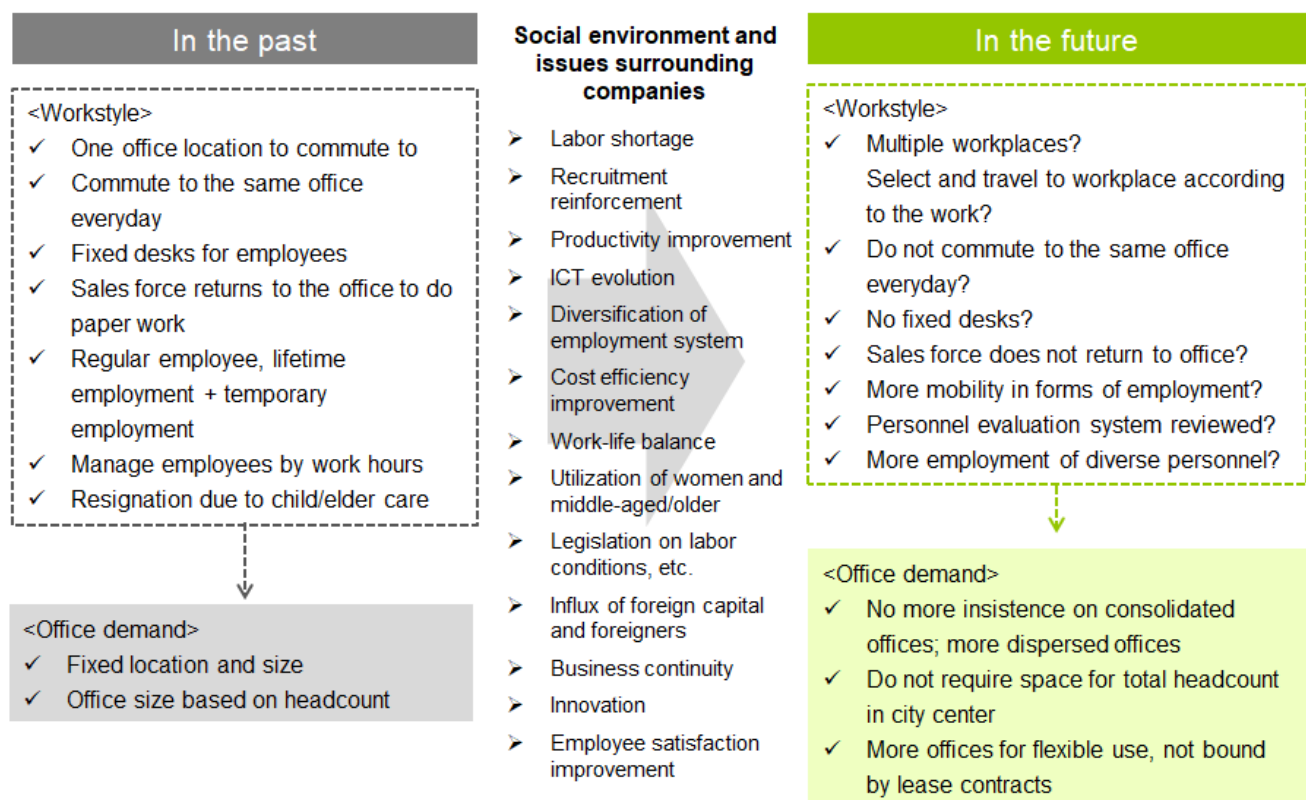
## 2. Changes in the Roles of the Office

In considering the future direction of the workplace, we will first look into the changes in the roles of the office for companies. There are two factors for the changes in the roles of the office.

One is the change in work itself and the resulting alteration of the organization. The “island” (opposed) layout, which had long been the mainstream of office layout, was suitable for a hierarchical organization, where the boss monitored employees who carried out paper work. However, more than 70% of Japanese companies today are engaged in the tertiary industry, where offices are not simply a place for paper work but a place for intellectual creation that generates value.

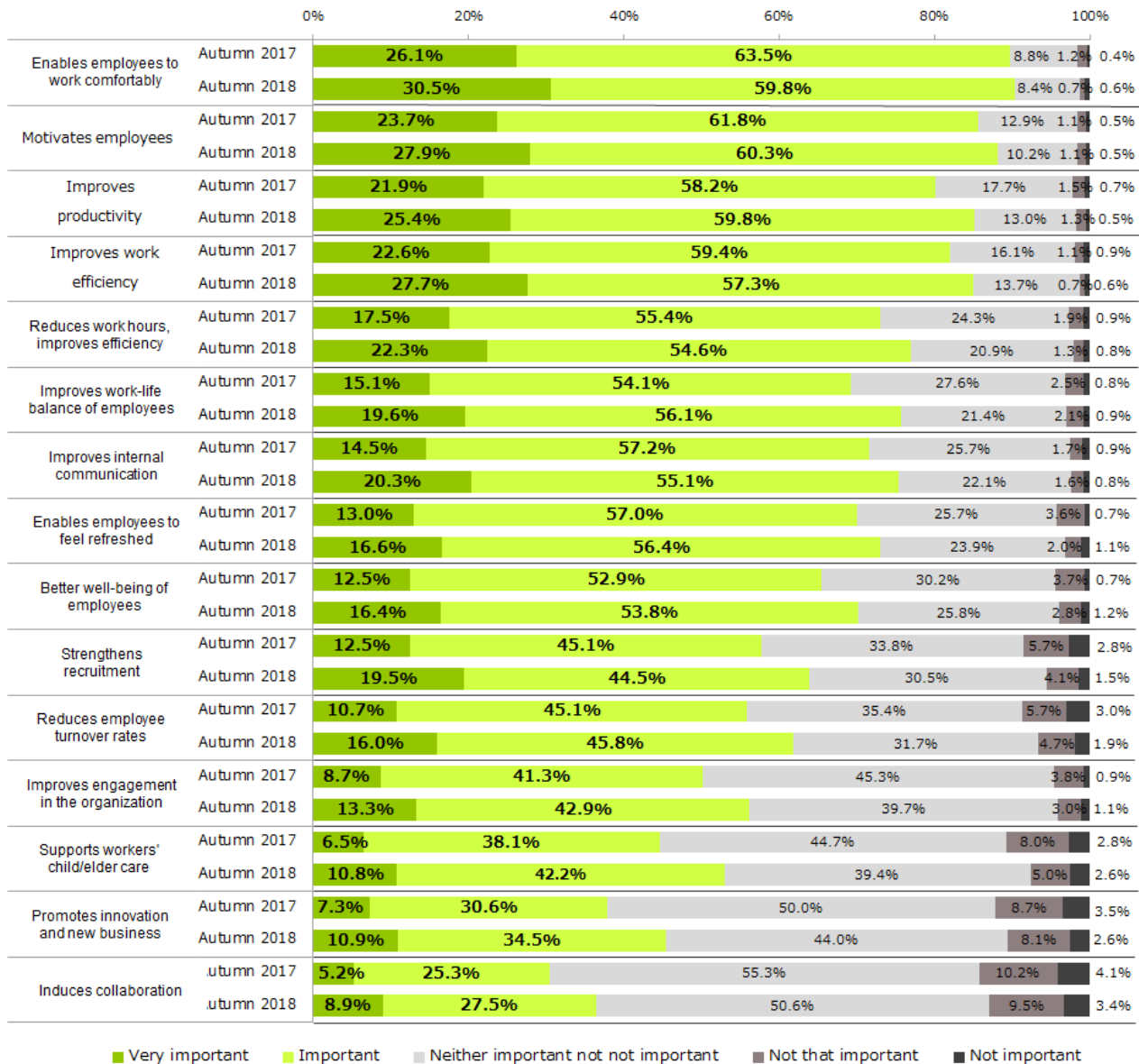
The second factor is the diversification and mobility of workstyles. Since conventional offices were designed on the assumption that all employees gathered in the same place at the same time to work, they only had to secure space for the number of workers they contain and meet the minimum needs, such as electric power capacity, a telecommunication environment, and safety. Thus they tended to look alike. However, the roles required of offices are likely to change as workstyles become more diversified and mobilized (**Figure 4**).

**Figure 4: The Impact of Workstyle Changes on Office Demand**



The aforementioned company survey also indicated that more than 80% of companies placed importance (the sum of “very important” and “important” replies) on values such as, “enables employees to work comfortably,” “motivates employees,” and “improves productivity,” in the intangible requirements in offices. This suggests the spread of an awareness that the office environment can affect workers’ productivity (**Figure 5**).

**Figure 5: What Companies Require in an Office (Intangible Elements)**



(Autumn 2017: n=1,294; Autumn 2018: n=1,352)

Then, what is improvement of productivity in the tertiary industry? In manufacturing, productivity improvement was achieved by making large volumes at low cost through mechanization, technological innovation, and reduction of personnel and raw material costs. However, mechanization is difficult in the tertiary industry since the industry relies on man. Instead of making large volumes at low cost, the improvement of added value is required, with the key point being increased intellectual productivity, such as originality and ingenuity, and the creation of new ideas and businesses by man.

In other words, offices are “intellectual production plants,” which means it is important for companies to hire quality personnel and develop an environment that can maximize their capabilities. Due to such circumstances, there has been a rise in a trend that considers offices as an investment instead of the conventional notion of cost to be reduced.

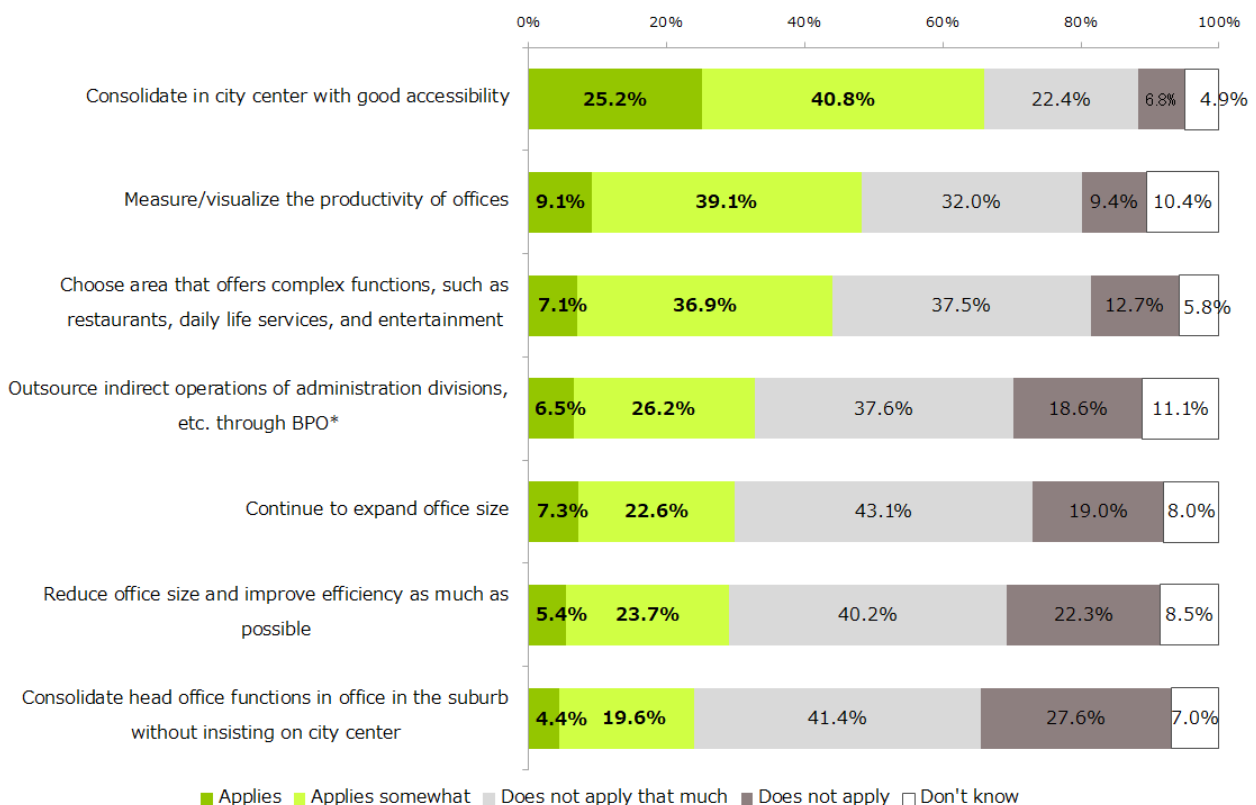
### 3. Diversification of the Workplace

Then, what kind of office improves intellectual productivity? As we mentioned earlier, since office workers, the work itself, and workstyles are becoming diversified, one answer will be to provide various options for workplaces, instead of considering one uniform solution, to guarantee a comfortable work environment for each worker.

For example, if the number of people who cannot commute long distances due to child/elder care or age, or who work part-time on the side increase in the future, companies must think of providing workplaces in the suburbs, for instance, in addition to offices in the city center. The work itself has also become more diverse, such as brainstorming, idea generation, and collaboration with people outside the company, in addition to paper work. Companies should provide spaces with functions that meet the needs of such work within the head office or other main offices as well as outside the main office if needed.

In the aforementioned company survey, we asked companies' medium-to long-term strategies for head offices and other offices. The top reply (the sum of "applies" and "applies somewhat" replies) for the head office was "consolidate in city center with good accessibility" (66.0%) (Figure 6), while the top replies for offices other than the head office were "enhance work from home" (50.4%) and "provide workspaces in various locations outside the head office" (44.2%), both exceeding "consolidate offices into the head office as much as possible" (31.4%) (Figure 7). Many companies seem to be considering consolidating their head office in the city center, while utilizing various workspaces, including home, for other offices.

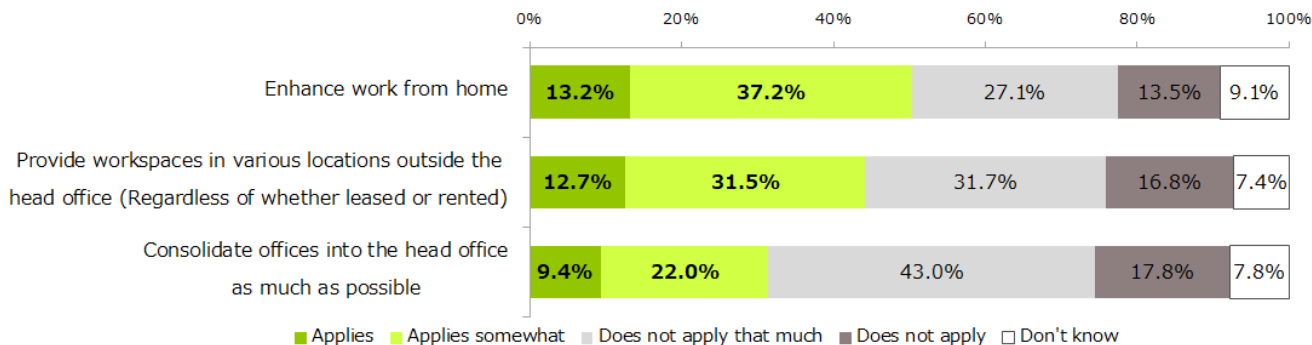
Figure 6: Future Strategy for the Head Office



(n=1,352)

\*BPO (Business Process Outsourcing): Outsourcing specific operations of a company to a specialized company.

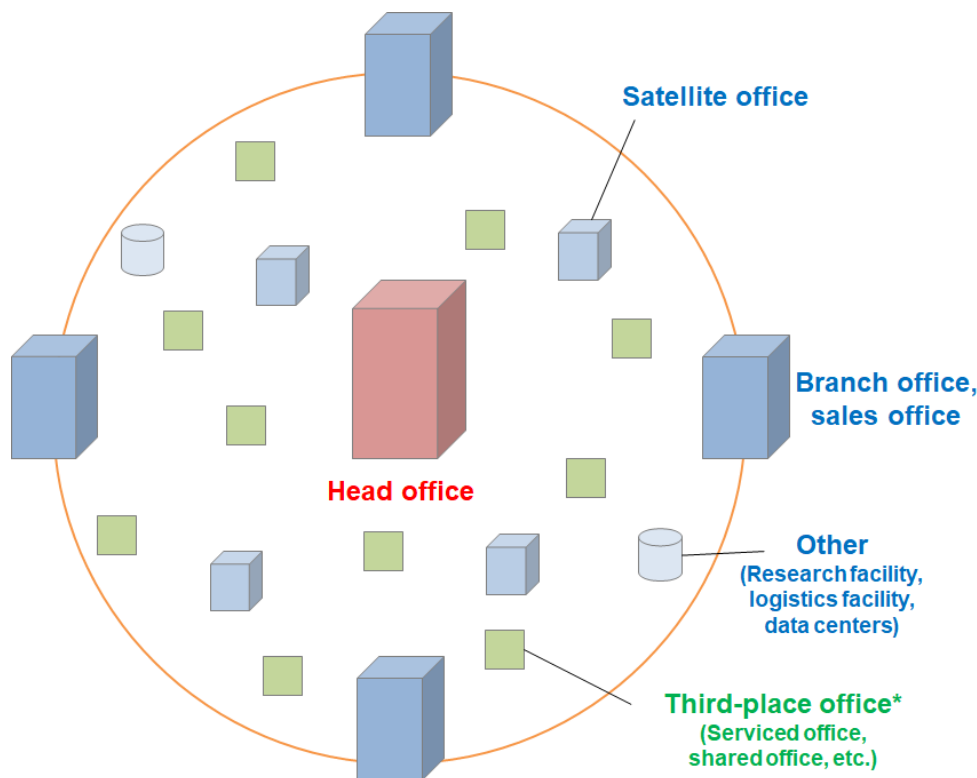
**Figure 7: Future Strategy for Offices Other than the Head Office**



(n=1,352)

Instead of choosing either consolidation or dispersion of offices, providing options such as a head office for employees to gather and various workplaces for dispersion and utilizing them as an integrated group of offices by using them for different functions may be one shape of a workplace that guarantees a comfortable environment and a work-life balance for workers as well as realizing companies' productivity improvement and innovation creation (Figure 8).

**Figure 8: Various Options for Workplaces**

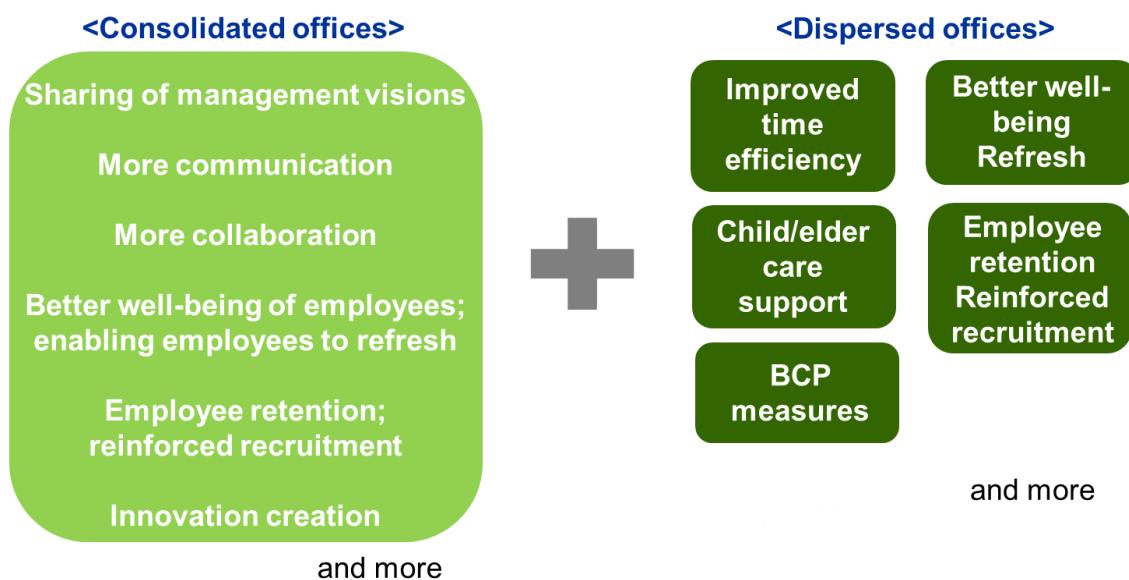


\*Third-place office: Office space other than the company's office or employees' homes, provided mainly by service providers. There are various types, including satellite offices, serviced offices, shared offices, mobile work offices, and co-working space. The party to the contract may be either a company or an individual.

Naturally, the contents of consolidation and dispersion and their balance will vary depending on the work, worker profile, workstyle, and corporate culture. For example, a company with many employees engaged in sales activities would promote telework to improve travel efficiency, while a company with many employees in planning work or engineers would improve the comfort of the head office.

Furthermore, consolidated offices and dispersed offices should be used separately in view of their respective strengths and weaknesses. The strengths of a dispersed workplace include the reduction of employees' travel time, the resulting improvement in work-life balance and well-being, improvement of productivity, and employee retention. On the other hand, the strengths of a consolidated office, such as the head office, include the promotion of communication and collaboration, the sharing of management visions, and the improvement in engagement. It would be worthwhile spending time commuting to the office if such effects can be gained. It will be important for future offices to achieve the best mix between consolidation and dispersion in accordance with the corporate profile (**Figure 9**).

**Figure 9: The Strengths of Consolidated Offices and Dispersed Offices**



## 4. Expansion of the Third-Place Office Market

The current size of the third-place office service market by private operators is, according to Xymax REI's estimate, approximately 68,000 tsubo (1 tsubo = 3.3 sqm) in the Tokyo 23 Wards, which is around 0.5% of the stock of the rental office market (12,810,000 tsubo<sup>\*1</sup>). The percentage in Manhattan is said to be around 1.7%.<sup>\*2</sup> This trend of "Real Estate as a Service" (REaaS) emerged in the United States after the financial crisis about 10 years ago and has expanded since. Meanwhile in Japan, the trend has only picked up in the last several years, and we believe it will expand further along with the progress of workstyle reforms.

\*1 Source: Xymax REI's TOKYO 23 WARDS | Office Stock Pyramid 2019, released on January 23, 2019

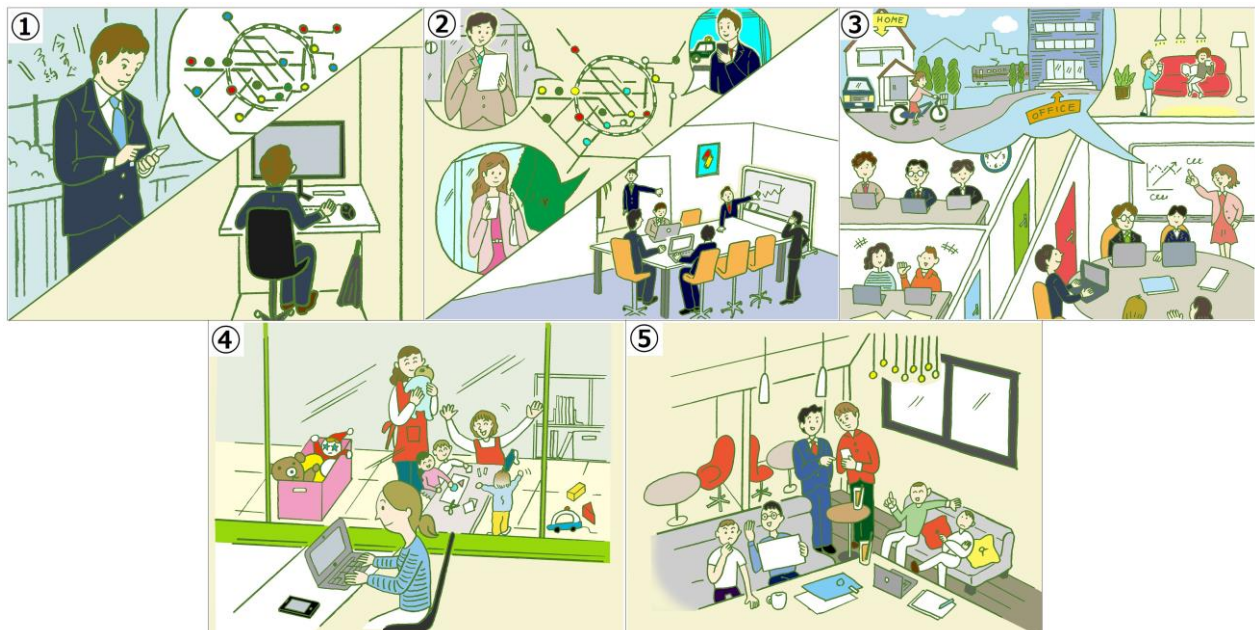
\*2 Source: Yardi Matrix (United States)'s Shared Space: Coworking's Rising Star, released in February 2018

Furthermore, following the increase of third-place offices, their varieties are also diversifying. While they can currently be categorized into the following five types depending on usage and location (**Figure 10**), they are likely to become more diversified in the future, as evidenced by the emergence of services with multiple characteristics.



- ① Touch-down type .....Mainly located in major office areas of city centers. Users can choose a convenient location and use immediately while out of the office or when going somewhere and returning without stopping by at the office. They are suitable for concentrating by oneself on paper work.
- ② Project room type .....Used in team units of multiple persons for system development and fixed-term projects, etc. They are used not only for working with internal personnel but also for working with external personnel.
- ③ Shared satellite office .....Mainly located in suburban areas, where employees living nearby can gather to work. They are jointly used by multiple companies as satellite offices, and offer exclusive sections for companies (with dedicated lines) and common areas.
- ④ Office with support features for workers with small children .....Comes with a nursery space, which can be used as needed mainly by employees with small children.
- ⑤ Co-working type .....An open space is jointly used by people from various industries and professions, inducing collaboration and innovation. Not only corporate but also individual contracts are often possible.

Figure 10: The Major Types of Third-Place Offices



Thus, the options for dispersed workplaces are increasing in both number and variety, and it will be necessary to clarify the purpose of introducing a third-place office service when choosing from such a wide variety. For example, if a company intends to improve the efficiency of customer visits by its sales force, it should choose a shared office (type ①), which has a network in major office areas of city centers. If a company wishes to support employees with small children or improve work-life balance, a suburban satellite office with a nursery space (types ③+④) might be a good choice.



## 5. Summary

In times of rapid changes in the business environment as today, office strategies have become an important management strategy. Although workstyle and workplace reforms, including telework, had been driven by advanced companies such as large companies and IT firms, small and medium-sized companies as well as companies in relatively conservative industries have also started to embark on reforms recently. Doing nothing is even becoming negative for company management.

The effort to seek diversification of the workplace and the best mix between consolidation and dispersion, which we have suggested in this report, has become important not only among companies but also among individual workers. This is because workers with different circumstances will continue working together in the future. The progress of flexible workstyles that are not bound to place or time will lead to even more options for work and life when faced with major life events such as childbirth, child rearing, elder care, and illnesses. Unlike times when the only options were to take leave of absence or resign, an increase in workers who work for a long time autonomously will in turn benefit corporate activity.

Consolidation or dispersion of workplaces is merely a means for an end, which is the realization of diverse and flexible workstyles. To support such new workstyles, head offices with features that promote communication and collaboration and a telework environment that enables employees to work efficiently anywhere will be required.

From an employee satisfaction perspective, companies should also consider amenities (convenience facilities) when providing offices dispersed in the suburbs. For workers to balance life and work, it will not suffice to simply provide a place for work. For example, workers will require amenities that assist their personal activities aside from their work, such as dining, shopping, and errands that can only be done on weekdays. Compared to office areas in city centers where restaurants, convenience stores, banks, and post offices are clustered, the areas surrounding suburban workplaces often lack sufficient amenities. The range of work that could be done in dispersed workplaces will also expand if the workplace offered sufficient features for employees to gather to work, such as open work spaces and rental meeting rooms. Working from home would suffice if efficiency of travel time and cost were the only aim; however, using flexible offices that offer support functions not provided at home may lead to achieving telework benefits beyond the simple improvement of efficiency.

As we have described thus far, workplace strategies that companies should consider have become complex, requiring expertise and the ability to have an objective view of one's company in order to arrive at the most appropriate shape of the office. Companies should consider the shape of the office for achieving the workstyle to aim for, with the help of specialists as the situation demands.

The percentage mix of the breakdown data of the charts contained in this report is rounded to the first decimal point and may not add up to 100%.

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